

# **Presentation**

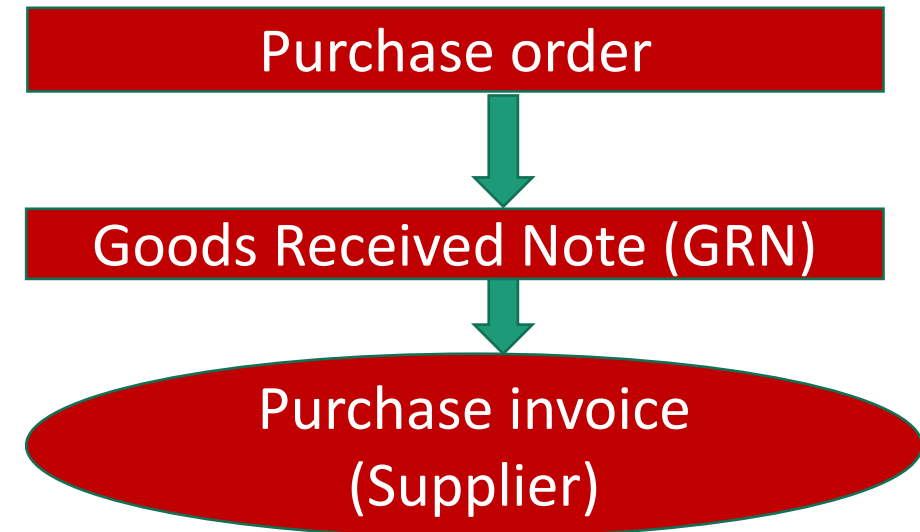
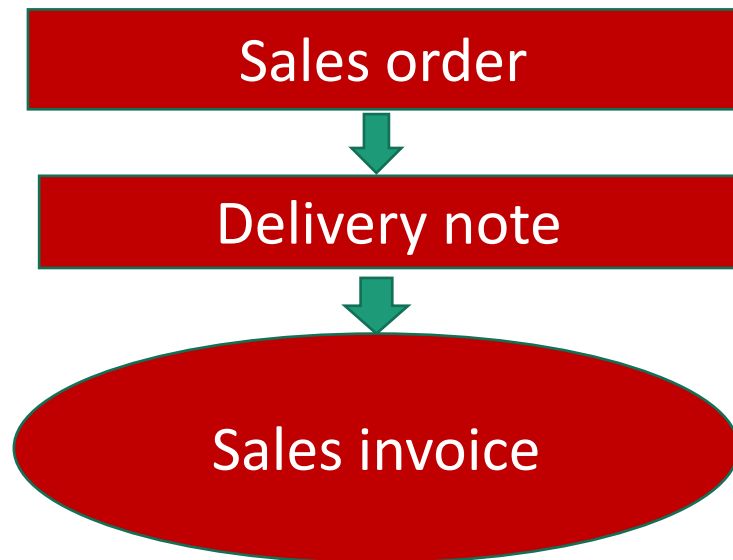
## **on**

# **Recording Financial Transactions (Chapter-3)**

***Md. Main Uddin FCA, ACS***

# What are source documents used for?

Whenever a business transaction takes place involving sales or purchases, receiving or paying money, or owing or being owed money, it is usual for the transaction to be recorded on a source document. These documents are the source of all information recorded by a business, but **only invoices and credit notes are source documents for the accounting system.**



# Invoice

Invoices are used to record transactions which have been made **on credit**. This is where goods or services are supplied but payment is not made straight away as there is a 'period of credit' before they are actually due for payment. **Invoices are source documents for credit transactions.**

- When a business sells goods or services on credit to a customer, it sends out a sales invoice. The invoice details should match the sales order details. The invoice is a request for the customer to pay what is owed.
- When a business buys goods or services on credit it receives a purchase invoice from the supplier. The details on the invoice should match the details on the purchase order.

## Credit notes

**A document issued to a customer relating to returned goods, or refunds when a customer has been overcharged for whatever reason.** It can be regarded as a negative invoice. **It is a source document for credit transactions.**

## Debit notes

**A debit note might be issued to a supplier** as a means of formally requesting a credit note from that supplier. **A debit note is not a source document.**

# Specimen invoice

E-mail: \_\_\_\_\_, Web site: \_\_\_\_\_

[illegible]

|                                                                |  |  |                                                                                                                            |  |                |                        |                                                           |  |  |  |   |  |
|----------------------------------------------------------------|--|--|----------------------------------------------------------------------------------------------------------------------------|--|----------------|------------------------|-----------------------------------------------------------|--|--|--|---|--|
| SHIPPING MARK                                                  |  |  | DESCRIPTION                                                                                                                |  |                |                        |                                                           |  |  |  |   |  |
|                                                                |  |  | Description                                                                                                                |  |                | : Cow Finished Leather |                                                           |  |  |  |   |  |
| AC/124/18,AC/155/18,AC/166/18,AC/0103/18,AC/156/18 & AC/159/18 |  |  | AC/124/18,AC/155/18 & AC/0103/18 Cow Finished Leather, Size:14/24 sqft(Full pcs) , Selection: AD-TR , Substanc: 1.3-1.5 mm |  |                |                        |                                                           |  |  |  |   |  |
|                                                                |  |  | Ricardo                                                                                                                    |  | Dk.Brown # 6   |                        | -                                                         |  |  |  | - |  |
|                                                                |  |  |                                                                                                                            |  | Black # 1      |                        | -                                                         |  |  |  | - |  |
|                                                                |  |  |                                                                                                                            |  | Oak # 16       |                        | -                                                         |  |  |  | - |  |
|                                                                |  |  |                                                                                                                            |  | Red # 31       |                        | -                                                         |  |  |  | - |  |
|                                                                |  |  | AC/156/18 & AC/159/18 Cow Finished Leather, Size:14/24 sqft(Full pcs) , Selection: AD-TR , Substanc: 1.2-1.4 mm            |  |                |                        |                                                           |  |  |  |   |  |
| BANGLADESH                                                     |  |  | Seville                                                                                                                    |  | Brick # 32     |                        | -                                                         |  |  |  | - |  |
|                                                                |  |  |                                                                                                                            |  | Red # 31       |                        | -                                                         |  |  |  | - |  |
| PRODUCT                                                        |  |  |                                                                                                                            |  | Dk.Brown # 6   |                        | -                                                         |  |  |  | - |  |
|                                                                |  |  | AC/166/18, Cow Finished Leather, Size:14/24 sqft(Full pcs) , Selection: AD-TR , Substanc: 1.0-1.2 mm                       |  |                |                        |                                                           |  |  |  |   |  |
|                                                                |  |  | Suzaki                                                                                                                     |  | Black # 1      |                        | -                                                         |  |  |  | - |  |
|                                                                |  |  |                                                                                                                            |  | Dk.Brown # 6   |                        | -                                                         |  |  |  | - |  |
|                                                                |  |  |                                                                                                                            |  | Mastered # 126 |                        | -                                                         |  |  |  | - |  |
| KANSAI                                                         |  |  |                                                                                                                            |  | Red # 31       |                        | -                                                         |  |  |  | - |  |
| BALE NOS.                                                      |  |  |                                                                                                                            |  | Navy # 50      |                        | -                                                         |  |  |  | - |  |
|                                                                |  |  |                                                                                                                            |  |                |                        | -                                                         |  |  |  | - |  |
| 231B-237B,769M-770M,846Z-848Z,938Z-939Z,942Z & 945Z            |  |  | Add : Air Freight @ US\$0.21/sft                                                                                           |  |                |                        |                                                           |  |  |  | - |  |
|                                                                |  |  | Total:                                                                                                                     |  |                |                        | -                                                         |  |  |  | - |  |
|                                                                |  |  |                                                                                                                            |  |                |                        |                                                           |  |  |  |   |  |
| Gross weight: Grs.Wght- kg :                                   |  |  | 862                                                                                                                        |  | US DOLLARS     |                        | TWENTY THOUSAND NINE HUNDRED EIGHTY POINT TWO EIGHT ONLY. |  |  |  |   |  |
| No.of pckgs :                                                  |  |  | 16 bales                                                                                                                   |  |                |                        |                                                           |  |  |  |   |  |
| Pieces-Full :                                                  |  |  | 319                                                                                                                        |  |                |                        |                                                           |  |  |  |   |  |
| Pieces-Side :                                                  |  |  |                                                                                                                            |  |                |                        | ( C AND F JAPANESE AIRPORT )                              |  |  |  |   |  |
| Quantity-sft :                                                 |  |  | 7,879.50                                                                                                                   |  |                |                        |                                                           |  |  |  |   |  |
|                                                                |  |  |                                                                                                                            |  |                |                        |                                                           |  |  |  |   |  |
| REMARKS:                                                       |  |  |                                                                                                                            |  |                |                        |                                                           |  |  |  |   |  |
| 1. Packing list is attached.                                   |  |  |                                                                                                                            |  |                |                        |                                                           |  |  |  |   |  |
| 2. Certified that the goods are of Bangladesh origin.          |  |  |                                                                                                                            |  |                |                        |                                                           |  |  |  |   |  |
| 3. This shipment is subject to Force Majuere Clause.           |  |  |                                                                                                                            |  |                |                        |                                                           |  |  |  |   |  |
|                                                                |  |  |                                                                                                                            |  |                |                        |                                                           |  |  |  |   |  |
|                                                                |  |  |                                                                                                                            |  |                |                        |                                                           |  |  |  |   |  |

## Delivery notes

When goods or services are delivered to a customer in respect of a sale, they are usually accompanied by a delivery note prepared by the seller. **A delivery note is not a source document for credit transactions.**

## Goods received notes

A goods received note (GRN) records a receipt of goods purchased, most commonly in a warehouse. They may be used in addition to suppliers' delivery notes. **A GRN is not a source document for credit transactions.**

## What are books of original entry used for?

Source documents need to be summarised, as otherwise the business might forget to ask for some money, forget to pay some, or pay something twice. It needs to keep records of transactions as documented in invoices and credit notes. Such records are made in books of original (or prime) entry.

## Books of original entry

The records in which the business first records transactions.

The main books of original entry are:

- **Sales day book** - The book of original entry in respect of credit sales, including both invoices and credit notes.
- **Purchases day book** - credit purchases, including both invoices and credit notes.
- **Cash book** - for receipts and payments in the business's bank account.
- **Petty cash book**- entry for small payments and receipts of cash.
- **The payroll**- for recording staff costs.
- **The journal**-The journal records transactions that are not recorded in any other book of original entry. Non-current asset purchases are usually recorded via the journal.

## Discounts in the cash book

Discounts may be offered in respect of credit transactions.

- A discount allowed arises when a business records one amount as being due from a customer, but then allows the customer to pay slightly less in full settlement (usually in return for the customer paying early).
- A discount received arises when a business records one amount as being due to a supplier, but then receives notice from the supplier that slightly less can be paid in full settlement (again, usually in return for paying early).

When a receipt is for less than the total amount owed by the customer, the amount of the discount (the difference between the amount owed and the receipt) is recorded in a special 'memorandum' column of the cash book.



## Case-1

Fantab Ltd has 10 employees who had gross pay of CU140,000 per annum between them in 20X4. In that year, Fantab Ltd made net pay payments to employees of CU129,200, and paid CU20,900 to the pension trustees. Its total payroll cost was CU170,400.

**How much did Fantab Ltd pay to Govt. Treasury in respect of Withholding Tax?**

|                           |                 |
|---------------------------|-----------------|
| Total payroll cost        | 170,400         |
| Employees (net pay)       | (129,200)       |
| Pension trustees          | <u>(20,900)</u> |
| Amount paid to Government | 20,300          |

## Case-2

Khan Ceramics sells ceramic products including dinner set and others. It sent out a sales invoice to a customer for 10 dinner sets, but the employee creating the invoice accidentally typed in a total of Tk. 50,000 instead of Tk. 5,000. The customer has been overcharged by Tk. 45,000.

Required: **What is Khan Ceramics to do in the above circumstance? Explain**

**Khan Ceramics will send out a credit note.**

### Case-3

The following transactions were extracted from the daily book of entries of M/s. Rahim & Co.

- (i) Mr. Rahim started business with Tk. 100,000 cash and provided inventory valued at Tk. 10,000.
- (ii) Mr. Rahim took a 10%, 5 years loan of Tk. 50,000 from bank for business.
- (iii) Mr. Rahim purchased office furniture for Tk. 12,000. The useful life of the furniture is five years.
- (iv) Goods costing Tk. 20,000 (including VAT @15%) is purchased for resale during the month.
- (v) Total sales (including VAT @15%) amounted to Tk. 50,000 for the month. Out of the invoiced amount, 60% is received in cash.
- (vi) Salary of Tk. 5,000 is paid to the staff from the personal bank account of Mr. Rahim.
- (vii) VAT is deposited to the govt. treasury.
- (viii) Utility bills for the month Tk 10,000 is received.

**Required: Prepare journal entries to record the above transactions.**

✓ **Sales orders are source documents that are recorded in the sales day book. True or false?**

✓ **When an entity returns goods to a supplier it will expect to receive from the supplier?**

- a) An invoice
- b) A credit note
- c) A purchase order
- d) A goods received note

✓ **What is the purchases day book used to record?**

- a) Suppliers' invoices and credit notes
- b) Invoices and credit notes to customer
- c) Delivery notes
- d) Goods received notes.

✓ **The cash book is the book of original entry for?**

- a) Receipts of amounts into the entity's bank account only
- b) Payments from the entity's bank account only
- c) Both receipts and payments for the entity's bank account
- d) All cash transactions for the entity

✓ **The amount of cash discount allowed on a transaction will be recorded initially in the?**

- a) Cash book (payments side)
- b) Sales day book
- c) Purchases day book
- d) Cash book (receipts side).

✓ Petty cash is controlled under an imprest system. The imprest amount is CU100. During a period, payments totaling CU53 have been made. How much needs to be reimbursed at the end of the period to restore petty cash to the imprest account?

- a) BDT 100
- b) BDT 53
- c) BDT 47
- d) BDT 50.

✓ **The cost of employer's pension is part of a company's?**

- a) net pay
- b) gross pay
- c) gross wages and salaries cost
- d) corporation tax charge

✓ **A transaction which does not involve payroll, cash or credit transactions is likely to be recorded in?**

- a) the cash book
- b) the petty cash book
- c) the sales day book
- d) the journal

✓ **Which of the following best explains the imprest system of petty cash ?**

- a) Each month an equal amount of cash is transferred into petty cash
- b) The exact amount of petty cash expenditure is reimbursed at intervals to maintain a fixed float
- c) Petty cash must be kept under lock and key.
- d) The petty cash total must never fall below the imprest amount.

✓ **When a purchase invoice is received from a supplier which TWO of the following documents would the invoice be checked to?**

- a) Sales order
- b) Purchase order
- c) Remittance advice
- d) Goods received note
- e) Credit note

✓ **G purchases goods on credit from H for BDT 1000. BDT 100 of these goods are defective and G returns them to H. What document would H issue to G in respect of the returned goods?**

- a) Invoice
- b) Remittance advice
- c) Credit note
- d) Delivery note

- ✓ The petty cash float in a business has an imprest amount of BDT 200. At the end of March Vouchers in the petty cash box totaled BDT 136 and the amount of cash remaining in the box was BDT 54. Which of the following explains the difference?
- a) A petty cash voucher for BDT 10 is missing
  - b) An employee was given BDT 10 too little when making a petty cash claim
  - c) An employee reimbursed petty cash with BDT 10 in respect of postage stamps used, but no voucher was prepared
  - d) A voucher for BDT 10 was put in the box but no payment was made to the employee.

- ✓ John enters into the following transactions in relation to Mary, a supplier who is also a customer. Which of **John's accounting records** is affected by each of these transactions?

**Mary buys goods from John on credit terms**

- a) Sales day book
- b) Purchase day book
- c) Purchase ledger

**John agrees to make contra entries in Mary's personal accounts in his accounting system.**

- d) Sales day book
- e) Purchase day book
- f) Purchase ledger

*Thank  
you*

